Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Text

LIMITED OFFICIAL USE

PAGE 01 BRUSSE 18656 01 OF 04 142232Z
ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 SP-02 STR-05
TRSE-00 LAB-04 SIL-01 OMB-01 INT-05 FEA-01 ERDA-05
DODE-00 PM-05 H-01 L-03 NSC-05 PA-01 PRS-01
SS-15 USIA-06 OES-07 /128 W
----------044581 142311Z /70
R 141913Z DEC 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 3743
INFO ALL EC CAPITALS
AMEMBASSY TOKYO
AMEMBASSY MADRID
AMEMBASSY ATHENS
AMEMBASSY LISBON
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 01 OF 04 BRUSSELS 18656

USEEC

PARIS ALSO FOR OECD; GENEVA ALSO FOR MTN

E.O. 11652: N/A
TAGS: EEC, EIND, ETRD, EGEN
SUBJECT: PROSPECTS FOR DAVIGNON PLAN TO RESTRUCTURE
THE EUROPEAN COMMUNITY STEEL INDUSTRY

1. SUMMARY: THE EC COMMISSION WILL SOON ELABORATE ITS STRATEGY FOR THE RESTRUCTURING OF THE EC STEEL INDUSTRY. IF SUCCESSFUL, THE END RESULT SHOULD BE A SMALLER, MORE MODERN AND MORE EFFICIENT STEEL INDUSTRY SPECIALIZING IN FINISHED PRODUCTS WHERE THE EC RETAINS SOME RELATIVE ADVANTAGE. THIS EFFORT IS EXPECTED TO BE THE MOST AMBITIOUS EC ENDEAVOR IN THE INDUSTRIAL FIELD AND WILL
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRUSSE 18656 01 OF 04 142232Z

INVOLVE ENORMOUS DIFFICULTIES OF COORDINATION ON THE TECHNICAL, ADMINISTRATIVE, AND POLITICAL LEVEL.

2. THE PLAN RELIES ON THE USE OF SEVERAL INSTRUMENTS: ECSC LOANS TO INDUSTRY, INTEREST SUBSIDIES, ADJUSTMENT ASSISTANCE, NATIONAL AIDS AND PROGRAMS, AS WELL AS FINANCIAL ASSISTANCE FROM THE REGIONAL FUND, SOCIAL

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

FUND, AND THE EUROPEAN INVESTMENT BANK. THE COMMISSION'S TASK IS TO CHANNEL THE ASSISTANCE TOWARDS DESIRABLE INVESTMENTS WHILE CUSHIONING A DIFFICULT ADJUSTMENT PROCESS AND AVOIDING BEGGAR-THY -NEIGHBOR SOLUTIONS AMONG MEMBER STATES. IN ADDITION TO PROBLEMS OF BUREAUCRATIC COOPERATION THIS RESTRUCTURING EFFORT WILL DOUBTLESS COLLIDE WITH MANY ENCRUSTED INTERESTS AND MEET PSYCHOLOGICAL RESISTANCE TO THE DIMINUTION OF ONCE-PROUD STEEL INDUSTRIES. THE COMMISSION HAS NEVERTHELESS ALREADY HAD SOME SUCCESS IN GUIDING THE EVOLUTION OF THE INDUSTRY.

3. PROSPECTS FOR A RESOUNDING SUCCESS SEEM UNLIKELY BUT NATURAL ECONOMIC FORCES, CONSIDERABLE FINANCIAL SUPPORT AND STRONG COMMISSION LEADERSHIP SHOULD MOVE THE STEEL INDUSTRY IN THE DESIRED DIRECTION. END SUMMARY.

4. IN RESPONSE TO THE STEEL CRISIS IN THE EUROPEAN COMMUNITY AND TO THE RELATED THREAT OF UNILATERAL MEMBER STATE ACTIONS WHICH COULD DESTROY THE COMMON MARKET FOR STEEL, THE EC COMMISSION HAS DEVISED A STRATEGY KNOWN FIRST AS THE SIMONET PLAN, LATER TO BE ELABORATED BY AND NAMED AFTER, SIMONET'S SUCCESSOR FOR COMMUNITY STEEL MATTERS, COMMISSIONER DAVIGNON. THE PLAN'S PURPOSE IS TO MAKE THE EUROPEAN STEEL INDUSTRY MORE MODERN, SELF-RELIANT AND COMPETITIVE. TO DO THIS,A TWO-PHASED APPROACH WAS PROPOSED: FIRST, MARKET MEASURES SUCH AS VOLUNTARY
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

DELIVERY TARGETS, MINIMUM REFERENCE PRICES (MANDATORY IN THE CASE OF REINFORCING BARS), IMPORT SURVEILLANCE AND PRESSURE ON TRADING PARTNERS TO OBSERVE PRICE AND/OR QUANTITY LIMITS ON THE EC MARKET. THE OBJECTIVE OF THESE MEASURES WAS TO BUY TIME FOR THE MORE CENTRAL TASK OF RESTRUCTURING THE INDUSTRY AND FOR ECONOMIC UPTURN.

5. THE END RESULT OF THIS RESTRUCTURING PROCESS, THE COMMISSION HOPES, WILL BE A LEANER, MORE COMPETITIVE, INDUSTRY. HOW LEAN IT NEEDS TO BE THE COMMISSION HAS NOT YET SAID. PRESS SPECULATION NOTWITHSTANDING, EUROPE IS NOT ABOUT TO ABANDON THE STEEL-MAKING BUSINESS ANYTIME SOON. COMMUNITY OFFICIALS FEEL STEEL IS SIMPLY TOO STRATEGIC TO BE LEFT ENTIRELY TO THE PREY OF COMPARATIVE ADVANTAGE. TO GET A BETTER IDEA OF WHAT THE INDUSTRY SHOULD LOOK LIKE, THOUGH, THE COMMISSION IS PRESENTLY UPDATING ITS STEEL OBJECTIVES FORECASTS FOR 1980-1990 TO TAKE ACCOUNT OF THE CRISIS SITUATION. SINCE THE INEVITABLE NEGOTIATIONS AMONG THE COMMISSION, MEMBER STATES, INDUSTRY, AND LABOR ON CAPACITY LEVEL RESTRUCTURING WILL BE BASED ON THIS STUDY, THE COMMISSION IS REFRAINING FROM COMMENT ON SPECIFICS, ALTHOUGH IT HAS MADE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

IT CLEAR THAT PRESENT CAPACITY OF 214 TONS IS TOO GREAT. NEVERTHELESS, DAVIGNON HAS INDICATED THAT HE BELIEVES A DECREASE OF AT LEAST 100,000 JOBS (FROM THE PRESENT 736,000) MAY BE NECESSARY. INDUSTRY SOURCES PRIVATELY HAVE SAID 200,000 IS A MORE REALISTIC FIGURE. THIS CONTRADICTION SHOULD TAKE PLACE THROUGH CLOSURES OF THE LEAST COMPETITIVE FACILITIES AND MERGERS OF OTHERS AS WELL AS THROUGH NORMAL ATTRITION AND EARLY RETIREMENTS.

6. NOR HAS THE COMMISSION YET ANNOUNCED ITS GOALS IN TERMS OF COMPETITIVITY IN DOMESTIC OR WORLD MARKETS ALTHOUGH THE MINIMUM POSITION IS THOUGHT BY COMMISSION STEEL OFFICIALS TO BE AN 80 PERCENT SHARE OF THE ECSC MARKET. SPECIAL EMPHASIS WILL LIKELY BE MADE ON THE NEED TO CONCENTRATE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BRUSSE 18656 01 OF 04 142232Z

PRODUCTION MORE ON FINISHED STEEL PRODUCTS.

7. WHEN THE COMMISSION FINALLY DOES SET ITS GOALS, THE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRUSSE 18656 02 OF 04 142236Z
ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 SP-02 STR-05
TRSE-00 LAB-04 SIL-01 OMB-01 INT-05 FEA-01 ERDA-05
DODE-00 PM-05 H-01 L-03 NSC-05 PA-01 PRS-01
SS-15 USIA-06 OES-07 /128 W
----------044604 142311Z /70
R 141913Z DEC 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 3744
INFO ALL EC CAPITALS
AMEMBASSY TOKYO
AMEMBASSY MADRID
AMEMBASSY ATHENS
AMEMBASSY LISBON
USMISSION GENEVA

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

USEEC

PARIS ALSO FOR OECD; GENEVA ALSO FOR MTN

RESOURCES WHICH IT CAN MOBILIZE IN THE RESTRUCTURING EFFORTS WILL BE IMPRESSIVE,ESPECIALLY IF COORDINATED. THEY INCLUDE LOANS TO INDUSTRY, INTEREST SUBSIDIES, ADJUSTMENT ASSISTANCE, COORDINATION OF NATIONAL AIDS AND PROGRAMS, AND FINANCIAL ASSISTANCE FROM THE REGIONAL FUND, THE SOCIAL FUND AND THE EUROPEAN INVESTMENT BANK. ONLY THE FIRST THREE HAVE BEEN USED SO FAR SINCE THE OTHERS ARE, STRICTLY SPEAKING, OUTSIDE THE NORMAL ACTIVITIES OF THE ECSC.

8. IN 1976 THE ECSC, WHICH HAS AN AAA BOND RATING, DISBURSED 1.2 BILLION DOLLARS IN LOANS TO THE INDUSTRY,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

REPRESENTING ONE QUARTER OF ALL LOANS AND CREDITS TO THE INDUSTRY IN THAT YEAR. WITH THE POSSIBLE EXCEPTION OF THE WEST GERMAN STEEL INDUSTRY, THE INDUSTRIES IN THE COMMUNITY ARE ALL SIGNIFICANTLY DEPENDENT ON ECSC AID FOR INVESTMENT PROSPECTS. THIS ROLE ALSO IMPLIES IMPORTANT NEGATIVE POWER TO BLOCK UNDESIRABLE INVESTMENT SINCE COMMERCIAL CREDIT SOURCES OFTEN REGARD ECSC APPROVAL AS AN ESSENTIAL FACTOR IN RISK APPRAISAL.

9. ADJUSTMENT ASSISTANCE IS PRIMARILY AVAILABLE THROUGH ARTICLE 56 OF THE ECSC TREATY. THIS IS A KEY POWER SINCE THE SUCCESS OF THE RESTRUCTURING EFFORT WILL LARGELY DEPEND ON BEING ABLE TO ABSORB DISPLACED WORKERS.

10. THEORETICALLY, ALL AIDS TO STEEL INDUSTRIES ARE BANNED BY THE TREATY OF ROME AND, WHILE THE COMMISSION IS NOT ENFORCING THE PROVISION DURING THE CRISIS, IT SAYS IT WILL DO SO UNLESS AIDS ARE COMPATIBLE WITH THE RESTRUCTURING PLAN. THE COMMISSION HAS ALREADY SENT LETTERS TO MEMBER STATES OUTLINING CRITERIA FOR ACCEPTABLE AID SCHEMES. IN GENERAL THESE SHOULD BE IN THE COMMON INTEREST, CONTRIBUTE TO THE AIMS OF THE RESTRUCTURING EFFORT, AND NOT DISTORT COMPETITION BETWEEN THE MEMBER STATES.

11. ON THE INSTITUTIONAL LEVEL, THE COMMISSION HAS MADE IT CLEAR THAT ITS SERVICES WILL FAVOR GREATER CONCENTRATION IN THE INDUSTRY TO MATCH THE SCALE OF LARGE ENTERPRISES IN JAPAN AND THE UNITED STATES. THIS SUPPORT WILL ENTAIL ADVICE FROM COMMISSION STEEL EXPERTS AND LENIENT TREATMENT FROM EC ANTI-TRUST AUTHORITIES, ESPECIALLY IN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

THE CASE OF JOINT VENTURES ON RAW MATERIALS SUPPLY. THE COMMISSION IS ALSO COUNTING ON THE NEWLY FORMED STEEL PRODUCERS ORGANIZATION, EUROFER, TO PLAY AN IMPORTANT ROLE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRUSSE 18656 02 OF 04 142236Z

(ALBEIT SHORT OF CARTEL BEHAVIOR) IN COORDINATION OF INDUSTRY POSITIONS ON RESTRUCTURING PLANS JUST AS IT HAS ALREADY DONE ON THE VOLUNTARY DELIVERY QUOTAS.

12. WHILE THE COMMISSION'S TOOLS MAY APPEAR FORMIDABLE, THE PROBLEMS ARE OF EQUAL MEASURE. OBSTACLES FACING THE EC EFFORT TO RESTRUCTURE ARE TECHNICAL AND ADMINISTRATIVE AS WELL AS ECONOMIC, POLITICAL AND SOCIAL. ON THE ADMINISTRATIVE FINANCE SIDE, GIVEN THE EMACIATED STATE OF COMPANY TREASURIES, THEIR DEBT BURDEN,AND DECREASING ABILITY TO RAISE OUTSIDE CAPITAL, ECSC FINANCIAL RESOURCES, GREAT THOUGH THEY ARE, ARE BEING STRAINED. THE COMMISSION EXPECTS THAT ITS ADDITIONAL RESTRUCTURING EFFORTS WILL PRODUCE A TWENTY TWO MILLION DOLLAR SHORTFALL IN 1977 AND THIRTY TWO MILLION NEXT YEAR. IT WOULD BE IMPOSSIBLE TO SEEK AN INCREASE OF THE ECSC PRODUCTION LEVY UNDER PRESENT CONDITIONS, AND THE COMMISSION IS THINKING OF ASKING MEMBER STATES FOR A PART OF THE CUSTOMS DUTIES LEVIED ON COAL AND STEEL IMPORTS FROM THIRD COUNTRIES.

13. COORDINATION OF THE SEVERAL INSTRUMENTS AVAILABLE TO THE COMMISSION WILL BE A SERIOUS PROBLEM. THE COMMISSION HAS NEVER BEEN INVOLVED IN SUCH A MAMMOTH INDUSTRIAL PROGRAM INVOLVING SO MANY SERVICES AND INSTITUTIONS WITHIN ITS JURISDICTION AS WELL AS WHAT PROMISE TO BE LIVELY NEGOTIATIONS WITH TRADE UNIONS, INDUSTRY REPRESENTATIVES, AND MEMBER STATES.

14. COMMISSION OFFICIALS ARE ALSO AWARE OF THE RISKS OF GOING TOO FAR IN THEIR PROGRAM (ASSUMING THEY CAN BE SUCCESSFUL). THE TREATY OF PARIS FOR THE ECSC IS ESSENTIALLY A LIBERAL DOCUMENT BUT INCORPORATES STRONG INTERVENTIONIST POWERS, IN CASE OF CRISIS. ONCE THESE POWERS ARE USED AND A TREND TOWARDS CARTELIZATION IS ESTABLISHED, THE COMMISSION FEARS THAT FREE COMPETITION COULD SUFFER
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BRUSSE 18656 02 OF 04 142236Z

DURING AN ENSUING UPTURN AND THAT INDUSTRY MAY BE LESS CAPABLE OF RESPONDING TO ANY UPTURN AND THEREBY LOSE MORE MARKETS TO COMPETITORS WHILE CREATING INFLATIONARY

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRUSSE 18656 03 OF 04 142239Z
ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 SP-02 STR-05
TRSE-00 LAB-04 SIL-01 OMB-01 INT-05 FEA-01 ERDA-05
DODE-00 PM-05 H-01 L-03 NSC-05 PA-01 PRS-01
SS-15 USIA-06 OES-07 /128 W
----------044632 142312Z /70
R 141913Z DEC 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 3745
INFO ALL EC CAPITALS
AMEMBASSY TOKYO
AMEMBASSY MADRID
AMEMBASSY ATHENS
AMEMBASSY LISBON
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 03 OF 04 BRUSSELS 18656

USEEC

PARIS ALSO FOR OECD; GENEVA ALSO FOR MTN

PRESSURES.

15. THE DAVIGNON PLAN HAS OBVIOUS SOCIAL IMPLICATIONS
WHICH OF THEMSELVES COULD BE SUFFICIENT TO BLOCK SUCCESS.
IT IS GENERALLY ACCEPTED BY EC OBSERVERS THAT THE JOB
LOSSES IMPLIED IN THE COMMISSION'S THINKING WILL ONLY BE
ACCEPTABLE TO THE EXTENT THAT REPLACEMENT JOBS ARE FOUND
OR CREATED. IN THE EUROPEAN CONTEXT THIS MEANS JOBS
WITHIN REASONABLE COMMUTING DISTANCE. WHEN THE EC FACED
THE TASK OF RESTRUCTURING ITS COAL INDUSTRY IN THE EARLY
1960'S THIS PROVED DIFFICULT ENOUGH -- AND THAT DURING
AN ECONOMIC BOOM WHEN COAL'S COMPLEMENTARY INDUSTRY,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRUSSE 18656 03 OF 04 142239Z

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

STEEL, WAS EXPANDING. NOW THE RELEVANT REGIONS ARE ESSENTIALLY MONO-INDUSTRIAL (STEEL) AND THE PRESENT ECONOMIC DURESS ALLOWS LITTLE HOPE OF ATTRACTING NEW INDUSTRY TO THESE REGIONS. THE COMMISSION AND MEMBER STATES ARE, HOWEVER, WORKING ON INVESTMENT INCENTIVE PLANS TO INDUCE HIGH EMPLOYMENT INDUSTRIES SUCH AS AUTO COMPANIES TO SET UP IN THESE AREAS.

16. ON THE POLITICAL LEVEL THE TASK OF THE COMMISSION APPEARS HERCULEAN. STEEL IS TOO ENTWINED IN REAL OR PERCEIVED NOTIONS OF NATIONAL INTEREST TO BE LEFT TO THE BUREAUCRATS OF BRUSSELS. ONLY WHEN FACED WITH CLEARLY UNACCEPTABLE ALTERNATIVES WILL STATES BACK DOWN FROM THE TEMPTATION TO PRESERVE THEIR ONCE-PROUD INDUSTRIES FROM INTERNATIONAL INTERLOPERS OR THE RAVAGES OF THE RECESSION.

17. SO FAR, GENERAL ACCEPTANCE OF THE DAVIGNON PLAN HAS BEEN ON THE BASIS OF A GENERAL FRAMEWORK BUT WHEN SACRIFICES ARE DEMANDED, THE LEVEL OF COOPERATION IS EXPECTED TO DIMINISH. EVIDENCE OF THIS IS ALREADY AVAILABLE IN THE REACTION BY UNIONS, GOVERNMENTS, OR BOTH, TO PROSPECTIVE CUTBACKS IN FRANCE (THIONVILLE), THE UK (SHOTTON), BELGIUM (RODANGE-ATHUS) AND ITALY (GIOIO TAURO).

18. THE COMMISSION STANCE TO DATE IS THAT ANY NEW CAPACITY SHOULD BE ACCOMPANIED BY SHUTDOWN OF AN EQUAL AMOUNT OF EXISTING CAPACITY. IF CLOSURES OR CUTBACKS PROVE IMPOS-SIBLE, THE COMMISSION WILL BE FACED WITH A FURTHER PROB-LEM -- WITH CAPACITY CONSTANT, WHAT OF PLANS FOR NEW, MORE MODERN PLANTS WHICH COULD ENHANCE THE INDUSTRY'S COMPETI-TIVE POSITION BUT LEAD TO MORE OVERCAPACITY?
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

19. WHATEVER THE SUCCESS OF DAVIGNON'S EFFORTS TO HOLD DOWN CAPACITY AND MODERNIZE EQUIPMENT, SOME STRUCTURAL DISADVANTAGES WILL CONTINUE, PARTICULARLY HIGH INPUT COSTS FOR LABOR, ENERGY AND RAW MATERIALS. THESE COSTS ARE EXPECTED TO INCREASE AT LEAST APACE WITH COSTS IN COMPETI-TOR STEEL INDUSTRIES AND DEVELOPMENTS IN STEEL TECHNOLOGY, SUCH AS DIRECT REDUCTION PROCESSES, COULD ENHANCE THE POSITION OF LDC'S LIKE BRAZIL WITH LARGE PIG IRON DEPOSITS.

20. FINALLY, EVEN IF DAVIGNON IS ABLE TO SURMOUNT TECHNICAL PROBLEMS, COORDINATE WITH DIFFERENT COMMISSION SERVICES, MEMBER STATES, AND INDUSTRY, AND OVERCOME POLITICAL AND SOCIAL RESISTANCE TO ITS PROGRAM, IT WILL TAKE A GREAT

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

DEAL OF TIME -- AN ELEMENT OF GREAT IMPORTANCE TO COM-
PANIES ALREADY ON THE BRINK OF BANKRUPTCY. THE COM-
MISSION AND, A FORTIORI, THE COMMUNITY,IS NOT DESIGNED
FOR PROBLEM-SOLVING ACTION PROGRAMS BUT OPERATES NORMALLY
UNDER TIME-CONSUMING INTERNAL CONSENSUS-BUILDING PRO-
CEDURES. BY THE COMMISSION'S OWN ESTIMATES THE RESTRUCTUR-
ING SHOULD TAKE AT LEAST 4-5 YEARS DURING WHICH TIME THE
EC'S COMPETITIVE POSITION MAY DETERIORATE FURTHER.

21. IN SPITE OF THE PROBLEMS INVOLVED, THE COMMISSION HAS
NONETHELESS EFFECTIVELY GIVEN SOME SUBSTANCE ALREADY TO
THE DAVIGNON PLAN. IT HAS, FOR EXAMPLE, PLAYED A KEY ROLE
IN THE BELGO-LUXEMBOURG DISPUTE OVER THE FUTURE OF THE
RODANGE-ATHUS STEEL COMPLEX, ENCOURAGED THE JOINT MANUFAC-
TURE OF PIG IRON BY THREE SARRE STEEL GROUPS AND OF PRE-
REDUCED IRON ORE BY ITALIAN FIRMS; APPROVED A MERGER
BETWEEN TWO FIRMS, HOESCH AND HERZOG K.G.; EXTENDED SUB-
SIDIES TO COKING COAL UNTIL 1981 AND CONSULTED WITH THE
NETHERLANDS, FRANCE AND ITALY ABOUT NATIONAL PLANS FOR
THEIR RESPECTIVE STEEL INDUSTRIES AS WELL AS WITH PRO-
DUCERS IN THE SARRE AND NORTHERN LORRAINE BASIN.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BRUSSE 18656 03 OF 04 142239Z

22. FOR DAVIGNON AND COMMISSION STEEL OFFICIALS, RODANGE-
ATHUS WAS IN FACT THE TOUCHSTONE OF EC STEEL POLICY.
INVOLVING, AS IT DID, A TRANS-NATIONAL REGION WITH ARCHAIC
PLANTS AND NO ALTERNATIVE EMPLOYMENT, THE CONFLICT CON-
TAINED MOST OF THE ELEMENTS OF THE DAVIGNON PLAN. RODANGE-
ATHUS, WHILE NOT NECESSARILY A PRECEDENT, HAS ENHANCED
THE CREDIBILITY OF THE DAVIGNON PLAN AND SHOWN THE
POTENTIAL FOR USING ECSC FINANCIAL LARGESSE AS A

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRUSSE 18656 04 OF 04 142241Z
ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 SP-02 STR-05
TRSE-00 LAB-04 SIL-01 OMB-01 INT-05 FEA-01 ERDA-05
DODE-00 PM-05 H-01 L-03 NSC-05 PA-01 PRS-01

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

SS-15 USIA-06 OES-07 /128 W
----------044678 142310Z /70
R 141913Z DEC 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 3746
INFO ALL EC CAPITALS
AMEMBASSY TOKYO
AMEMBASSY MADRID
AMEMBASSY ATHENS
AMEMBASSY LISBON
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 04 OF 04 BRUSSELS 18656

USEEC

PARIS ALSO FOR OECD; GENEVA ALSO FOR MTN

LYNCHPIN IN DISPUTES OF THAT KIND.

23. CONCLUSIONS:

THE MANY VARIABLES GOVERNING THE SUCCESS OR FAILURE OF IHE PROGRAM MAKE PRECISE ASSESSMENTS DIFFICULT AT THIS STAGE, ESPECIALLY WHEN THE COMMISSION HAS NOT YET UNVEILED ANY SPECIFICS ON FUTURE CAPACITY. NEVERTHELESS, ASSUMING A CONSTANT OR MINIMALLY IMPROVING ECONOMIC SITUATION THE COMMISSION'S EFFORT SHOULD AT LEAST HALT THE DECLINE OF THE INDUSTRY EVEN IF IT DOESN'T REBUILD ITS COMPETITIVE EDGE.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

WHILE SUCH AN UPSWING IS ESSENTIAL IN RESTORING COMPANY FINANCIAL POSITIONS AND CAPACITY LEVELS, THEY OFTEN MASK THE NEED FOR STRUCTURAL ADJUSTMENT AND IT IS QUITE LIKELY THAT MEMBER STATE SUPPORT FOR COMMISSION INTERVENTION WOULD WANE PROPORTIONATE TO ECONOMIC RECOVERY. BUT THE BASIS OF THE COMMUNITY STEEL POSITION IN THE NEXT DECADE DEPENDS UPON STRUCTURAL CHANGE IN THE INDUSTRY AND SO IT WILL PROBABLY PURSUE THE EFFORT REGARDLESS OF ECONOMIC RECOVERY. THIS IS ALL THE MORE TRUE SINCE STEEL DEMAND IS LIKELY TO CONTINUE TO LAG BEHIND ECONOMIC GROWTH AS STRUCTURAL CHANGES IN THE DEVELOPED ECONOMIES AND SUB-STITUTE MATERIALS ERODE THE ROLE OF STEEL IN INDUSTRIALIZED ECONOMIES WHILE GROWTH OF DEMAND IN LDC'S IS INCREASINGLY MET BY LOCAL PRODUCTION.

ALTHOUGH THE MEASURES AT THE DISPOSITION OF THE COMMISSION

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

ARE POWERFUL IF COORDINATED, THE COORDINATION EFFORT IS ITSELF DOUBTFUL OF SUCCESS AND THEREFORE THE WHOLE OF THE PROGRAM MAY WELL BE LESS THAN THE SUM OF ITS PARTS. IN ADDITION PSYCHOLOGICAL AND POLITICAL PROBLEMS WILL HINDER THE COMMISSIONER AT EVERY STEP.

IN SUM, THE OBSTACLES LOOK TOO GREAT FOR HOPES OF COMPLETE SUCCESS, BUT A COMBINATION OF TREATY INSTRUMENTS, DYNAMIC COMMISSION LEADERSHIP UNDER DAVIGNON, AND NATURAL ECONOMIC FORCES WILL DOUBTLESS BRING SOME RESULTS THAT CAN BE TERMED A SUCCESS IN TERMS OF REDUCED CAPACITY, MORE MODERN EQUIPMENT AND PROCESSES AND GREATER PRODUCT SOPHISTICATION.

SOME ADJUSTMENT OF THE INDUSTRY WILL TAKE PLACE WITHOUT THE COMMISSION'S INTERVENTION. INVESTMENT IN NEW CAPACITY HAS ALREADY DROPPED SUBSTANTIALLY (THIS HAS A NEGATIVE IMPLICATION, HOWEVER, FOR MODERNIZATION EFFORTS) AND
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

NATURAL ATTRITION RATES SHOULD ALLOW A REDUCTION IN WORK FORCE OF AT LEAST 25,000 PER YEAR. BRITISH STEEL CORPORATION IS ALREADY PURSUING A RESTRUCTURING PROGRAM WITH THE INTENTION OF CUTTING ITS LABOR FORCE BY ABOUT 20,000 JOBS, WHILE FRANCE HAS UNVEILED A PROGRAM WHICH WOULD ELIMINATE 16,000 JOBS, BELGIUM HAS INTRODUCED A MORATORIUM ON INVESTMENTS FOR NEW CAPACITY AND LUXEMBOURG HAS IMPLEMENTED A HIRING FREEZE AND LOWERED THE MANDATORY MINIMUM RETIREMENT AGE FOR STEEL WORKERS FROM 65 TO 57. BY ITSELF, HOWEVER, THIS NATURAL ECONOMIC ADJUSTMENT IS POLITICALLY UNPALATABLE. THE DAVIGNON PLAN IS DESIGNED TO PLAY A COORDINATING AND FACILITATING ROLE IN THIS PROCESS, BALANCING REGIONAL SACRIFICES AND LUBRICATING THE ADJUSTMENT THROUGH FINANCIAL ASSISTANCE. ADDITIONALLY IT WILL PROVIDE MEMBER STATES WITH A WAY TO DEFLECT TOWARDS BRUSSELS INEVITABLE RESENTMENT ARISING FROM THE HARD BUT NECESSARY CHOICES WHICH MUST BE MADE.

IF THE RESTRUCTURING PLAN IS NOT AT LEAST A QUALIFIED SUCCESS, IT IS PROBABLE THAT THE MARKET ASPECTS OF THE DAVIGNON PLAN (DESIGNED TO BE TEMPORARY) WILL BECOME MORE PERMANENT AND MORE EXTENSIVE. IN THAT SITUATION MEMBER STATES WOULD LIKELY AGREE TO MAKE FULL USE OF THE CRISIS PROVISIONS OF THE ECSC TREATY WHICH PROVIDE FOR MANDATORY PRODUCTION QUOTAS AND STRONG MEASURES AGAINST IMPORTS.
HINTON

LIMITED OFFICIAL USE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

NNN

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: STEEL, INDUSTRY
Control Number: n/a
Copy: SINGLE
Sent Date: 14-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BRUSSE18656
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770466-0088
Format: TEL
From: BRUSSELS USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771259/aaaabxkx.tel
Line Count: 542
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d837d504-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 245334
Secure: OPEN
Status: NATIVE
Subject: PROSPECTS FOR DAVIGNON PLAN TO RESTRUCTURE THE EUROPEAN COMMUNITY STEEL INDUSTRY
TAGS: EIND, ETRD, EGEN, EEC
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/d837d504-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009